

CALIFORNIA DEPARTMENT OF INSURANCE
LEGAL DIVISION
Fraud Liaison Bureau
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Attorneys for The California Department of Insurance

**BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA**

In the Matter of the Rates, Rating Plans, or
Rating Systems of

STATE FARM GENERAL
INSURANCE COMPANY,

Respondent.

File No. NC06092759

NOTICE OF HEARING AND ORDER TO
SHOW CAUSE WHY RESPONDENT'S
HOMEOWNERS' INSURANCE RATES ARE
NOT EXCESSIVE AND IN VIOLATION OF
INSURANCE CODE SECTION 1861.05

TO: STATE FARM GENERAL INSURANCE COMPANY:

YOU ARE HEREBY NOTIFIED that the Insurance Commissioner of the State of California (hereinafter "the Commissioner") has good cause to believe that the rating plans, rating systems and rates of Respondent **STATE FARM GENERAL INSURANCE COMPANY** (hereinafter "STATE FARM" OR "Respondent") are in violation of Insurance Code §1861.05 because the rates for its Homeowner's Multi-peril insurance lines are excessive and cannot legally remain in effect. Respondent is ordered to appear and show cause why its Homeowner's Multi-peril insurance rates are not excessive and should not be lowered.

This hearing will be subject to California Insurance Code §1861.08 and will be held before the Department of Insurance Administrative Hearing Bureau. The Administrative Hearing Bureau will set the time and place for the hearing. This hearing will extend to all matters upon which the Commissioner may act pursuant to Insurance Code §1861.05. Pursuant to California

1 Code of Regulations, Title 10, §2646.5, Respondent shall have the burden of proving that
2 each rate is justified and meets all requirements of the Insurance Code.

3 This Order to Show Cause and Notice of Hearing is issued pursuant to Insurance Code
4 §1861.08(b) and California Code of Regulations, Title 10, §2646.5. To respond to this Notice of
5 Hearing, Respondent must file an original and four (4) copies of a "Notice of Defense" or similar
6 responsive document with the Department's Administrative Hearing Bureau in San Francisco,
7 within fifteen (15) days of service of this Notice. A copy of the Respondent response and proof
8 of service, shall be served upon Antonio A. Celaya, Senior Staff Counsel at the Department's San
9 Francisco Legal Office, 45 Fremont Street, 21st Floor, San Francisco, CA 94105.

10 The manner and extent of noncompliance are set forth below.

11 **I. GENERAL ALLEGATIONS**

12 1. Respondent is, and was at all relevant times an insurer licensed to transact, and
13 did, transact, the business of insurance in the State of California including Homeowner's
14 Multi-peril insurance.

15 2. California Insurance Code §1861.05(a) states in pertinent part:
16 No rate shall be approved or remain in effect which is excessive, inadequate, unfairly
17 discriminatory or otherwise in violation of this chapter.

18 **II. RESPONDENTS' VIOLATIONS OF STATUTE AND REGULATION**

19 **A. STATE FARM'S CURRENT HOMEOWNERS' INSURANCE RATES ARE 20 EXCESSIVE UNDER ITS CURRENT FINANCIAL CONDITIONS**

21 3. The Department incorporates by reference paragraphs 1-2 above.

22 4. During 2002 in California Department of Insurance rate filing application No.
23 02-35364, Respondent applied for a rate increase in its Homeowners' Multi-peril
24 Insurance program. A lesser rate increase was approved and put into effect
25 during 2003.

26 5. At the time Respondent's homeowner's rates were approved in 2003 its rates
27 were not excessive based upon the loss projections in its rate application.
28 Respondent's actual losses have been far less than the originally predicted losses
and Respondent's rates are now excessive.

- 1 6. On or about March 1, 2006 Respondent reported on annual loss ratios in its 2005
2 annual report filed with the Department under penalty of perjury. The loss ratio
3 is the ratio of monies Respondent paid on claims compared to the dollars it
4 collected in premium for Homeowner's Multi-Peril insurance. In 2004
5 Respondent's loss ratio was 32.01% and Respondent made substantial profits on
6 its Homeowners' Multi-peril line of insurance.
- 7 7. During 2004 and 2005 Respondent's loss ratios calculated by calendar year
8 radically dropped to 32.01% and 37.6% respectively. There is reason to believe
9 that Respondent's loss ratios as calculated by its "accident year," the period by
10 which Respondent calculates rates, have dropped precipitously, to the benefit of
11 Respondent. This is substantial evidence that the predictions submitted to the
12 Commissioner, and which were the basis for approval of Respondent's rates,
13 were inaccurate and that Respondent's rates are now excessive.
- 14 8. The premium earned received by California's top 20 Homeowner's insurers
15 increased by more than 61% between 2001 and 2005. However, the losses per
16 dollar of premium received in 2005 are significantly less than in 2001. While
17 income and profits have risen, and the number of claims have diminished in
18 recent years Respondent and other top insurers have failed to seek rate decreases,
19 thereby denying consumers a competitive market.
- 20 9. Excessive rates must be determined in part using a determination of an insurer's
21 projected losses, as that term is defined in California Code of Regulations, Title
22 10, §2644.4(a). Respondent's rates were approved based upon Respondent's
23 projected losses. Respondent's actual losses have in fact been far less than
24 Respondent predicted. Between 2001 and 2004 the number of claims tendered to
25 Respondent under its Homeowner's Multi-peril program declined dramatically
26 from 205,000 claims per year to only 88,000 claims per year.
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10. A variety of factors have increased the income to insurers transacting Homeowners' Multi-peril insurance in California. Respondent's return on surplus last year was 38.35%, far more than was predicted in its last rate filing.
11. In 2002 when respondent made its rate application in Department rate application no. 02-35364, there was no reason to believe that its return would be as large as it has proven to be. Given the increase in its premium income and the decrease in the claims per dollar of premium it receives there is every reason to believe that Respondent's Homeowners' Multi-peril lines in California will continue to approach the same level of profitability.
12. The Commissioner has cause to believe that there may be a variety of factors that contributed to Respondent's reduction in its losses and increase in premium. Whatever factors have contributed to this reduction the result is that Respondent's Homeowner's Multi-peril rates are excessive within the meaning of Insurance Code section 1861.05(a).

III. PRAYER FOR RELIEF

13. Based upon the foregoing the Department requests a hearing under the procedures set forth in California Code of Regulation, Title 10, §§ 2646.1 *et seq.* and 2648.1 *et seq.*

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1 14. The Department requests a finding that Respondent's homeowner's rates are
2 excessive, and finding of the appropriate and reasonable rate, and an Order
3 requiring Respondent to utilize the rates found to be reasonable based upon the
4 evidence presented at hearing, and such other relief as the judge of the
5 Administrative Hearing Bureau may find to be appropriate.
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7 Dated: _____.

CALIFORNIA DEPARTMENT OF INSURANCE

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9 By _____
10 Antonio Celaya
11 Senior Staff Counsel
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